

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY SEOUL

C O N F I D E N T I A L STATE 219536

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E.O. 11652: GDS

TAGS: EFIN, KS

SUBJECT: OPIC INSURANCE - DOW APPLICATION

1. OPIC COUNTRY CONCENTRATION PROBLEM AND RELATED DOW APPLICATION FOR INSURANCE FOR PROPOSED INVESTMENT AT YOSU DISCUSSED IN OPIC BOARD MEETING SEPTEMBER 9. BOARD DECIDED TO MAKE OFFER OF INSURANCE COVERAGE TO DOW BASED ON TWO OF OPTIONS FOR HANDLING INSURANCE IN HIGH CONCENTRATION COUNTRIES WHICH OPIC HAS FORMULATED OVER PAST SEVERAL WEEKS.

2. IN REGARD WAR RISK, OPIC WILL OFFER RECIPROCAL REINSURANCE ASSOCIATION WHICH WILL BE BASED ON OPIC'S WHOLE WAR RISK PORTFOLIO SINCE JUNE 30, 1972. ASSOCIATION WILL COVER FIRST LOSS UP TO \$5 MILLION INITIALLY WHICH WILL INCREASE AS ASSOCIATION RESERVES INCREASE. OPIC WOULD COVER LOSSES ABOVE THIS AMOUNT. LIABILITY OF ANY ONE FIRM IN ASSOCIATION WOULD INITIALLY BE LIMITED TO TOTAL OF PREMIUMS IT HAD PAID IN. WE UNDERSTAND DOW HAS PREVIOUSLY EXPRESSED INTEREST IN EXPLORING POSSIBILITY OF ASSOCIATION FOR WAR
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RISK COVERAGE.

3. A MODIFIED VERSION OF SCHEME ABOVE IS ALSO OPIC'S PREFERRED METHOD OF HANDLING RISKS OF EXPROPRIATION AND INCON-

VERTIBILITY IN HIGH CONCENTRATION COUNTRIES. HOWEVER, IT MAY NOT BE ACCEPTABLE TO DOW AND OPIC THEREFORE AUTHORIZED ALTERNATIVE WHICH CAN BE ALSO OFFERED TO DOW AT SAME TIME. THIS WOULD INVOLVE DECLINING PROPORTION OF COVERAGE IN CASE OF "CATASTROPHIC" LOSS. THAT IS, IF A NUMBER OF OPIC INSURED INVESTORS IN GIVEN COUNTRY BECAME SUBJECT TO EXPROPRIATION OR INCONVERTABILITY, OPIC WOULD COVER REDUCED PERCENTAGE OF ALL LOSSES OF FIRMS INSURED UNDER THIS TYPE OF CONTRACT. IF ONLY ONE OR FEW IN COUNTRY SUBMIT CLAIMS FOR THESE RISKS OPIC WOULD COVER LOSSES FOR FULL AMOUNT OF INSURANCE.

4. SUMMARY ABOVE RAISES SEVERAL IMPORTANT QUESTIONS AND WE HAVE ASKED OPIC TO FURNISH EMBASSY WITH DETAILS OF PROPOSED OFFER. HOWEVER, DEPARTMENT BELIEVES ABOVE CONSTITUTES AT LEAST REASONABLE BASIS TO BEGIN NEGOTIATIONS WITH DOW (AND OTHER INVESTORS) INTERESTED IN OPIC INSURANCE COVERAGE FOR INVESTMENTS IN KOREA.

5. SINCE OFFER HAS NOT YET BEEN FULLY FORMULATED OR PRESENTED TO DOW (WHICH WE UNDERSTAND MAY TAKE PLACE LATER THIS WEEK) IT SHOULD NOT BE DISCUSSED WITH DOW REPS OR ROKG. KISSINGER

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